2007

INVESTMENT CLIMATE REPORT

LAO PDR

U.S. Embassy
Vientiane, Laos
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OVERVIEW

After eleven years of socialist policies, the Government of Laos (GOL) implemented the New Economic Mechanism (NEM) in 1986 to expedite the country's transition to a market economy. From the late 1980's to the mid-1990's trade was liberalized; price controls lifted; many state-owned industries privatized or commercialized; commercial banks established; and a comparatively open foreign investment law written. During the same period, the exchange rate stabilized and inflation remained relatively manageable.

After mid-1996 the rate of reform slowed considerably, and Laos' economic performance, aggravated by the 1997 Asian financial crisis, suffered. Between June 1997 and June 1999, the local currency (kip) lost 87 percent of its value, and inflation soared to 128.4 percent in 1999. GDP growth, which had fallen to four percent in 1998, rose to over 5 percent in 1999. Tighter monetary policy has helped stabilize the inflation rate since FY 2000, with monthly inflation averaging around 1 percent. Between 2002 and 2005 the inflation rate remained between 10 and 15 percent, and the Bank of Laos claims 2006 inflation was 6.8 percent. Overall exports grew in 2006, boosted especially by mining and hydropower. Despite Normal Trading Relations (NTR), exports of manufactured goods to the United States remain below Lao expectations, hampered by high transportation costs and general unfamiliarity with doing business in the United States. Nonetheless, Laos is expected to run a trade surplus with the United States for all of 2006.

Gross Domestic Product growth rates averaged 5.8 percent in 2003, 6.5 percent in 2004, 7 percent in 2005 and 7.5 percent in 2006.

Laos' comparatively liberal investment law is significantly undermined by inconsistency in implementation. The decline in foreign direct investment after 1996, while partly due to the regional economic crisis, was rooted in other factors as well, such as bureaucratic impediments to the application process; a lack of transparency in the regulatory framework; a lack of skilled workers; and an uncertain domestic economic environment. Implementation of the Bilateral Trade Agreement (BTA) with the US, as well as Laos' efforts to become a member of the World Trade Organization, may eventually help promote greater transparency and consistency in the legal and regulatory frameworks, but progress is slow.

OPENNESS TO FOREIGN INVESTMENT

The economic reforms adopted in 1988 and Decree No. 73/PO, dated October 22, 2004, purport to promote foreign direct investment as a means of boosting development and economic growth. Under the 2004 Law on the Promotion of Foreign Investment, foreign investors may invest in all business sectors and zones of investment in the Lao People's Democratic Republic, except in business activities which are detrimental to national security, have a negative impact on the environment, or are regarded as detrimental to health or national traditions. In practice, however, some sectors are effectively closed to outside investors. The overall investment climate is poor, and rates very low in international indices of transparency and ease of doing business.

The investment term of a foreign investment enterprise depends on the nature, size, and conditions of the business project but normally cannot exceed fifty years. Under special circumstances, foreign investment enterprises may be extended with the approval of the government. However, foreign enterprises that receive extension approval from the government may not exceed a total investment term of seventy-five years.

Any foreign investor seeking to establish operations in Laos must submit project proposals to the Department for Promotion and Management of Domestic and Foreign Investment (DDFI), Committee for Planning and Investment (CPI). The proposal is then screened by the relevant line ministries and adjudicated by the Prime Minister's Office. Further to Prime Minister Decree No 301, dated on October 12, 2005, proposals for projects worth US $20 million or more require the approval of the Prime Minister. The President and Vice President of the Department of Domestic and Foreign Investment can sign approvals that involve investments of less than $10 million USD. FDI equal to or less than $3 million USD can be approved at the provincial level by all provinces, and in large provinces the ceiling for provincial level approval is $5 million.

The screening process at the Department for Promotion and Management of Domestic and Foreign Investment (DDFI) in the Committee for Planning and Investment (CPI) takes into account the financial and technical feasibility of the project, input from relevant line ministries, and whether the proposed project conflicts with government policy. Upon receipt of an application, the CPI must coordinate with relevant sectors and local authorities to consider and respond in writing to the foreign investor. Responses to projects, depending on project type, are supposed to be forthcoming within 15 – 45 working days.

Foreign investors shall obtain a foreign investment license, an enterprise registration certificate, and a tax registration certificate from the CPI office nearest the place where the foreign investors are licensed. Thereafter they shall be considered as enterprises established in conformity with the laws of the Lao People's Democratic Republic. Within 90 days from the date of receipt of an investment license the foreign investment enterprise must commence business activities. If the investors fail to do so, the foreign investment license shall be terminated.

Besides the investment license, foreign investors are required to obtain other permits. These include a business registration which must be annually renewed from the Ministry of Commerce, a tax registration from the tax department in the Ministry of Finance, a business logo registration from the Ministry of Public Security, permits from each line ministry related to the investment (i.e., Ministry of Industries for manufacturing; Ministry of

Communications for transportation, etc.), appropriate permits from local authorities, and an import-export license, if needed.

In mid-1999 the Lao government began imposing import restrictions on trading companies, whether foreign or domestic, in an effort to reduce the trade deficit. The Lao government requires them to file a joint annual import plan for approval by the Ministry of Commerce. Government documents articulating the restrictions and explaining the policy are difficult to obtain. Goods that are always prohibited for import and export range from explosives and weapons, to literature that presents a negative view of the Lao government, to certain forestry products and wildlife. For a detailed list of import & export restrictions please visit http://www.moc.gov.la/default.asp.

As of June 1, 2000 the Lao government began requiring pre-shipment inspection of all goods with an order value of US $2,500 and above. Because the garment manufacturing industry relies on imported inputs, some garment manufacturers expressed concerns about the additional delays and costs imposed on them by this requirement. Lao Bivac International, a joint venture between the Lao government and Bivac International of France, was the sole company given authority by the Lao government to perform the required inspections, but closed due to a lack of business. Many companies therefore rely on their own quality controllers to perform inspections.

Agriculture production, as well as the majority of manufacturing production is private. State-owned enterprises (SOEs) currently account for only one percent of total employment. Roughly 97 percent of manufacturing units are small (fewer than 10 employees). Among the medium and large units, 35 percent are privately owned by Lao citizens and 55 percent are joint ventures with foreigners. The rest are owned by the government (including provincial governments). Foreign companies interested in acquiring SOE's should apply through the Department for Promotion and Management of Domestic and Foreign Investment (DDFI) in CPI. Medium and large-sized SOE's can be obtained through a joint venture with the Lao government.

CONVERSION AND TRANSFER POLICIES

In order to facilitate business transactions foreign investors generally open commercial bank accounts in both local and foreign convertible currency at domestic and foreign banks in Laos. Vietnamese, Thai, and Malaysian banks currently have a presence in Laos. Bank accounts must be maintained in accordance with the Enterprise Accounting Law. The law places no limitations on foreign investors transferring after-tax profits, income from technology transfer, initial capital, interest, wages and salaries, or other remittances to the company's home country or third countries so long as they request approval from the Lao government. These transactions are conducted at the official exchange rate on the day of execution, upon presentation of appropriate documentation. Supply of FOREX is sometimes limited in Laos, which imposes a de facto limit on repatriation of capital. Also, foreign enterprises must report on their performance annually and submit annual financial statements to the CPI.

EXPROPRIATION AND COMPENSATION

Foreign assets and investments in Laos are protected by laws and regulations against seizure, confiscation, or nationalization except when this is deemed necessary for a public purpose, in which case foreign investors are to be compensated. Foreign investors in a joint venture must contribute at least thirty percent (30%) of the venture's registered capital. Capital contributed in foreign currency must be converted into kip based on the exchange rate of the Bank of the Lao People's Democratic Republic on the day of the capital contribution. Wholly foreign-owned companies may either be a new company or a branch office of an existing foreign company. During the business operation of a foreign investment enterprise, the assets of the enterprise must not be less than its registered capital.

DISPUTE SETTLEMENT

According to the Foreign Investment Law, investors involved in investment disputes must seek arbitration before taking legal action. If arbitration does not result in an amicable settlement, litigants may submit their claims to the economic arbitration authority of Laos, or that of the investor's country, or an international organization agreed on by both parties. The law does not reflect reality, as there are no adequate independent arbitration venues in Laos. Foreign investors are therefore generally advised to seek arbitration outside the country, since Laos' nascent domestic arbitration authority lacks enforcement powers. Laos is not a member of the International Center for the Settlement of Investment Disputes. It became a party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards on September 15, 1998, but Laos has never been asked to enforce a foreign arbitral award. Laos is a member of the United Nations Convention on International Trade Law.

Laos' legal system is evolving, but remains incomplete in many regards. Laws sometimes contradict each other and often lack implementing regulations. For example, tax exemptions and low import duties guaranteed to foreign investors under the foreign investment law are not reflected in customs or tax law. Supported by the Japan International Cooperation Agency (JICA), Singapore, and the United Nations Development Program (UNDP), some laws have been officially translated into English. These include the business, tax, bankruptcy, customs, and secured transaction laws. Implementing regulations for the Foreign Investment Law, which are crucial to enforcement, were approved on October 10, 2005. The reliability of unofficial translations varies considerably, creating an environment of uncertainty and ambiguity among foreign investors.

Projects funded by the Australian government, the EU, the U.S., and the UN Development Program to assist Lao accession to the World Trade Organization (WTO) include components aimed at bringing Lao commercial law into conformity with WTO standards. A commercial court was established during 2003, and began to hear cases in 2005.

Laos has no anti-trust statutes. The bankruptcy law permits either the business or creditor the right to petition the court for a bankruptcy judgment, and allows the business the right to request mediation. There is no record of foreign-owned enterprises, whether as debtors or as creditors, petitioning the courts for a bankruptcy judgment.

PERFORMANCE REQUIREMENTS AND INCENTIVES

Laos does not impose performance requirements per se. Foreign investors are encouraged to give priority to Lao citizens in recruiting and hiring. Foreign personnel can be hired, though may not exceed ten percent (10%) of the enterprise's total labor force. Before bringing in foreign labor, the enterprise must apply for work permits from the Ministry of Labor and Social Welfare. A foreign personnel list must also be submitted to the Planning, Monitoring and Evaluation Division of the Department for Promotion and Management of Domestic and Foreign Investment (DDFI).

Incentives for Foreign Investment: Laos grants incentives for foreign investment depending on the sectors and zones of investment promotion. The government defines promoted activities under Article 16 as follows: 1) production for export; 2) activities relating to agriculture or forestry, and agricultural, forestry and handicraft processing activities; 3) activities relating to industrial processing, industrial activities using modern techniques and technology, research and development, and activities relating to the protection of the environment and biodiversity; 4) human resource development, skills development and public health; 5) construction of infrastructure; 6) production of raw materials and equipment to be supplied to key industrial activities; and, 7) development of the tourism industry and transit services.

Under Article 17, the government has determined three promoted zones for foreign investment based on geographical location and socio-economic conditions. The zones are as follows:

Zone 1: Mountainous, plain and plateau zones with no economic infrastructure to facilitate investments.

Z: Mountainous, plain and plateau zones with a moderate level of economic infrastructure suitable to accommodate investments.

Zone 3: Mountainous, plain and plateau zones with good infrastructure to support investments.

Under Article 18 of the Foreign Investment Law, foreign enterprises investing in activities within the promoted sectors and zones determined in Article 16 and 17 of the law on the Promotion of Investment shall be entitled to the following duty and tax incentives:

--Investments in Zone 1 shall be entitled to a profit tax exemption for 7 years, and thereafter shall be subject to profit tax at the rate of 10 percent.

--Investments in Zone 2 shall be entitled to a profit tax exemption for 5 years, and thereafter shall be subject to a reduced profit tax rate of half of fifteen percent for 3 years, and thereafter a profit tax rate of 15 percent.

--Investments in Zone 3 shall be entitled to a profit tax exemption for 2 years and thereafter shall be subject to a reduced profit tax rate of half of twenty percent for 2 years, and thereafter a profit tax rate of 20 percent.

The profit tax exemption starts from the date the foreign investment enterprise begins operations. For tree planting activities, profit tax exemption commences when the enterprise begins earning a profit. Once the profit tax exemption period is concluded, the foreign investment enterprise must pay profit tax. In addition to the aforementioned incentives, foreign investment enterprises shall be entitled to the following incentives:

--During the tax exemption period and during the tax reduction period the enterprise is entitled to an exemption of minimum tax;

--The profit used for the expansion of licensed business activities shall be exempted from profit tax during the accounting year; exemption from import duties and taxes on equipment, spare parts and vehicles directly used for production, on raw materials which do not exist domestically or which exist but are insufficient, and on semi-finished products imported for processing or assembly for the purpose of export;

--Exemption from export duty on export products; and,

--Raw materials and semi-finished products imported for processing or assembly for import substitution shall be exempted from import duties and taxes, or shall be subject to reduced rates of import duties and taxes.

Foreigners employed in Laos, including foreign investors, must pay an income tax of 10 percent of their total income to the Lao Government, unless they are citizens of a country with which the Lao Government has signed a double taxation agreement. The United States has no such agreement with Laos. The tax system includes taxes on profits, natural resources, agriculture, land, income, imports and exports, as well as excise and turnover taxes. The turnover tax is scheduled to be replaced in 2008 with a Value Added Tax (VAT).

Foreign investors are not required to pay import duty on equipment, spare parts and other materials used in the operation of their enterprises. Raw materials and intermediate goods imported for the purpose of processing and re-export are exempt from import duties. Raw materials and intermediate goods imported for the purpose of import substitution are also eligible for import duty reductions on a case-by-case basis. On an individual basis, foreign investors are also eligible for profit tax and import duty reductions or exemptions, if the investment is significantly large or determined to have a significant benefit to Laos' socio-economic development.

Annual business license renewal is contingent upon certification that all taxes have been paid. Given the lack of clarity in the tax law, foreign investors complain that taxes are often assessed in an inconsistent and capricious manner. Lao officials acknowledge ambiguities in the law. The tax code was streamlined and simplified in April 2005, but investors still report significant difficulties in obtaining tax certifications in a timely manner.

The Foreign Investment Law stipulates that foreign investors and their families, including foreign professionals and foreign employees of an enterprise, shall be facilitated by issue of multiple entry visas and, if approved by the government, long term residence in the Lao PDR. They shall also, in theory, have the right to apply for Lao nationality in accordance with the Law on Nationality.

RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

The government recognizes the right of private enterprise ownership, and foreigners may transfer shares of a foreign-invested company without prior government approval. However, the business law requires that all shareholders be listed in the articles of association, and changes in the articles of association of a foreign-invested company must be approved by DDFI-CPI , per the Enterprise Law http://www.moc.gov.la/default.asp. Thus, transferring shares in a foreign-invested company registered in Laos does require the indirect approval of the government (DDFI-CPI).

PROTECTION OF PROPERTY RIGHTS

Foreign investors are not permitted to own land. The government grants long-term leases, and allows the ownership of leases and the right to transfer and improve leasehold interests. Government approval is not required to transfer property interests, but the transfer must be registered and a registration fee paid. This includes mortgage leases.

Secured interests in property are inadequately covered by the Secured Transactions Law of 1994. Because the law offers no instructions for the creditor to enforce security rights (the creditor, for example, can only request repayment from the debtor), the law favors the debtor. Moreover, since the Ministry of Finance's registry system is not computerized, and cannot cross-reference records, it is difficult to determine if a piece of property is encumbered. Enforcement of a mortgage is further complicated by the legal protection given mortgagees against forfeiture of their sole place of residence.

Laos issued a trademark decree in January 1995. The Science, Technology, and Environment Agency (STEA), part of the Prime Minister's Office, controls the issuance of trademarks on a first-come, first-register basis. Applicants do not have to demonstrate prior use. There are currently over 14,000 trademarks registered in Laos.

Laos became a member of the ASEAN Common Filing System on patents in 2000 but lacks adequate personnel qualified to serve as patent examiners. A draft decree on patents was sent to the Prime Minister in February 2000 for approval and in 2002 the Prime Minister's Office issued patent regulations. However, the National Assembly is still in the process of researching the Intellectual Property Law and has not yet acted. Since Thailand and Laos have a bilateral Intellectual Property Rights (IPR) agreement, in principle a patent issued in Thailand would also be recognized in Laos.

Currently, no system exists to issue copyrights in Laos. Laos became a member of the World Intellectual Property Organization (WIPO) Convention on January, 1995 and the Paris Convention on the Protection of Industrial Property on October, 1998; it has not yet joined the Bern Convention on Copyrights. Although WIPO assisted Laos in drafting an intellectual property law in 1996, legislative action on the draft remains pending and it appears dead.

TRANSPARENCY OF THE REGULATORY SYSTEM

The principal laws, regulations, decrees and guidelines governing international trade and investment, as well as the protection of intellectual property, are available to the public, although not all have been officially translated into English. Laws and their schedules for implementation are customarily published in the Lao daily newspapers, and relevant line ministries are beginning to put laws and regulations on websites.

While Laos' body of enterprise law is slowly launching the interpretation and application of existing laws is one of the greatest impediments to investment. A lack of transparency in a centralized decision-making process, as well as the difficulty encountered in obtaining information, augment the perception of the regulatory framework as arbitrary and inscrutable. While the government ostensibly streamlined the process by giving DDFI sole responsibility for foreign investment applications, the red-tape requirements associated with establishing a foreign investment have increased.

EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

Laos does not have a developed capital market. Three-month treasury bills are occasionally offered for sale when there is a need to absorb excess liquidity in the economy. The country is just beginning to use checks and other financial instruments as methods of payment. The largest denomination of currency is 50,000 kip (about US $5). Credit is not available on the local market for large capital investments, although letters of credit for export can sometimes be obtained locally. International reserves fluctuate, with the latest available 2006 data showing coverage of less than 4 months of imports and numbering $258 million as of June.

The banking system is under the supervision of the Bank of the Lao PDR and includes three state-owned commercial banks - Banque Pour le Commerce Exterieur Lao (BCEL), Lao Development Bank (LDB) and Agriculture Promotion Bank (APB); two joint-venture banks - Joint

Development Bank and Lao-Viet Bank; five Thai banks - Bangkok Bank, Sam Commercial Bank, Krungthai Bank, Thai Military Bank, and Ayudhya Bank; one Malaysian bank - Public Bank; two Private Banks - Vientiane Commercial Bank and Phongsavanh Bank; and one representative office - Standard Chartered Bank. Previously, foreign banks were permitted to establish branches only in Vientiane. A new banking law passed in 2006 allows private foreign banks to establish branches in all provinces of Laos. However, implementing regulations have not yet been published. BCEL has correspondence arrangements with the following banks (US dollars):

- JP Morgan Chase Bank, New York
- Citibank, New York - Wachovia Bank, New York
- American express bank, Ltd., New York - HSBC Bank, New York
- Standard Chartered Bank, New York
- Barclays Bank Plc., London - Credit Suisse First Boston, Zurich - Bank of Tokyo-Mitsubishi, Ltd, Tokyo
- Natexis Banque Populaires, Singapore
- Standard chartered bank, Singapore - Bank for foreign trade of Vietnam, Hanoi - Thai Military Bank Public Co. Ltd., Bangkok - Bank Thai Public Co. Ltd. Bangkok - Calyon, Bangkok

The poor condition of the financial sector is a significant barrier to business. Central bank supervision of the sector is lax, state-owned commercial banks (SCBs) border on being bankrupt, there is little enforcement of prudential guidelines and poor credit standards, and considerable directed crony lending. Although the SCBs were recapitalized as recently as 2003, results of a 2006 audit indicate that the institutions are insolvent, with non-performing loans accounting for 28 percent of their debt portfolio. The Asian Development Bank has provided both program loans and technical assistance to Laos' financial sector, as have the World Bank and the IMF. These programs have not succeeded in eliciting significant reforms. In 2006 several agreements between Lao banks and their Chinese and Vietnamese counterparts were aimed at increasing the technical and human resource capacity of the Lao banking system. The results of these agreements are not yet evident.

POLITICAL VIOLENCE

Although Laos is generally a peaceful and politically stable country, the remnants of an insurgency occasionally carry out small-scale attacks on government personnel and civilians. Foreign persons are not deliberately targeted. Visitors are advised to use caution in public areas and when traveling in remote districts. The Lao PDR is a single-party Communist state controlled by the Lao People's Revolutionary Party (LPRP). At its Party Congress held every five years, the LPRP's Poliburo sets government policies, including guidelines for all print and broadcast media. Dissent is rare and quickly quashed.

CORRUPTION

Corruption in Laos is rising. The Prime Minister's Office issued an anti-corruption decree in November 1999, but this did not slow the growth of corruption. Although the 1999 decree specifically notes the responsibility of the state-owned mass media in publicizing corruption cases, there has been no reporting on this issue. In 2005 an anti-corruption law was passed by the National Assembly. To date there have been no implementing regulations and no prosecutions. Laos is not a signatory to the OECD Convention on Combating Bribery. The Counter-Corruption Committee in the Prime Minister's Office is the Lao government agency responsible for combating corruption. Both giving and accepting bribes are criminal acts punishable by fine and/or imprisonment. Besides bribes to low-level officials for the purpose of expediting time-sensitive applications, such as business licenses, importation of perishable items, customs, etc., anecdotal evidence of more pervasive corruption is growing.

BILATERAL INVESTMENT AGREEMENTS

Laos has bilateral investment agreements with the following countries:

Country	Date Signed	Date Entered Into Force	Duration
France	12/12/89	3/8/91	10
Thailand	3/3/94	12/29/94	10
Indonesia	10/18/94	10/14/95	10
Australia	4/6/94	4/8/95	15
United Kingdom	6/1/95	6/1/95	10
Vietnam	1/14/96	6/23/96	10
USA (initialed)	3/8/96	3/26/96	20
Rep of Korea	5/15/96	6/14/96	15
Germany	8/9/96	3/24/99	10
Sweden	8/29/96	1/1/97	20
Switzerland	12/4/96	12/4/96	10
Russia	12/6/96	4/21/98	15
Singapore	3/24/97	3/25/98	10
Cuba	4/28/97	6/10/98	10
DPRK	8/20/97	8/22/99	10
Denmark	9/28/98	5/9/99	10
India	11/09/00	6/6/93	15
Myanmar	5/5/03	-	-
Holland	5/23/03	-	-
Pakistan	4/23/03	-	-

On February 1, 2005 a Bilateral Trade Agreement (BTA) came into force between the U.S. and the Government of Laos. Laos and the United States do not have a bilateral taxation treaty.

OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

The United States and Laos signed an Overseas Private Investment Cooperation (OPIC) agreement in March 1996. In 1998 Laos signed an agreement with the Multilateral Investment Guarantee Agency (MIGA). EXIMBANK does not operate in Laos.

LABOR

Over 70 percent of Laos' work force of 2.6 million is engaged in subsistence agriculture. The Lao government estimated the total non-agricultural work force in 2005 to number 483,560 people, roughly 27,000 of whom were employed in garment manufacturing. The total labor force is expected to increase by more than 30 percent over the next ten years.

The Labor Law passed in 1994 provides for the formation of trade unions; specifies working hours and compensation standards; allows for maternity leave and benefits; workers' compensation and retirement benefits; and establishes procedures for labor dispute resolution. The Lao government raised the official minimum wage to 200,000 kip per month (about $20 dollars) in 2006. Wages for unskilled labor at garment factories, including bonuses and lunch, now run about 290,000 kip or about US $30 monthly. Labor unions can be formed in private enterprises, but they must operate within the framework of the Lao Federation of Trade Unions (LFTU), which is controlled by the Lao People's Revolutionary Party. In 2006, there were 2,317 trade unions nationwide, and membership in the LFTU numbered 105,541. Strikes are not prohibited by law, but a government ban on subversive activities or destabilizing demonstrations makes them unlikely.

Laos has significant human resource deficiencies in virtually all sectors. English is not widely spoken. In 2005, about 27 percent of the population remained illiterate. The shortage of skilled labor is particularly acute in high-tech sectors. The country has a few technical colleges, one scientific research facility--the National Institute of Hygiene and Epidemiology--and almost no effective post-graduate degree programs. The Lao Government has dedicated very few resources to improve the country's education system and tends to rely heavily on international donors for support; there are a few state training programs and some foreign-funded programs. Potential investors should note the need to dedicate substantial resources, both human and capital, to train employees.

FOREIGN TRADE ZONES/FREE PORTS

The Foreign Investment Law allows for the establishment of free trade zones as an investment incentive. A zone in southern Savannakhet province, which borders both Vietnam and Thailand, is such a Special Economic Zone. Lao laws pertaining to trade are supposedly applied uniformly across the entire customs territory of Laos, including all sub-central authorities, special economic zones and border trade regions. In reality, however, customs practices vary widely at ports of entry in the provinces.

FOREIGN DIRECT INVESTMENT STATISTICS

During 2006 the GOL approved US$ 2,699M worth of foreign investment projects. Hydropower schemes account for about 66 percent of that amount. The value of approvals for new investment licenses granted has doubled in 2006 compared to 2005. Foreign direct investment figures from the Bank of Lao PDR for recent years follows below:

Real FDI inflow through Bank of Lao PDR (in Million of US $)

2000	**2001**	**2002**	**2003**	**2004**	**2005**
33.9	23.9	4.5	19.5	16.9	27.7

FDI approved (in Million of US $)

2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
20.4	42	493.8	550	533	1,245	2,699.7

This data is unavailable by sector or source.

Between 2000 and 2005, DDFI approved approximately US $2.7 billion in investment projects. These approvals do not reflect actual investment. For example, they include 15 projects listed by DDFI as U.S. investments (see below). In fact, US investment currently averages less than $1 million per annum. Only one new U.S. investment license was approved in 2005. Foreign investment now comes primarily from other Asian countries, particularly Thailand (traditionally Laos' largest trade and investment partner), China, and Vietnam. Australia is also a major source of investment, mostly in the mining sector. During 2005 the value of Thai investment licenses approved grew by 36 percent, French investments accounted for 30 percent of the total approved (due to investment in the Nam Theun II hydropower project).

Foreign Investment Licensed in the Lao PDR by countries of origin, from 2000 through September 2006, in U.S. Dollars. (Source: Department for Promotion and Management of Domestic and Foreign Investment (DDFI), Committee for Planning and Investment.

Rank	Country	Number of Projects	Capital
1	Thailand	130	1,269,329,211
2	Vietnam	78	745,665,752
3	China	181	705,394,415
4	France	42	428,498,111

5	Japan	25	414,646,583
6	India	3	350,330,000
7	Australia	20	317,767,528
8	Korea	66	225,071,305
9	Malaysia	29	86,903,392
10	Singapore	17	84,935,000
11	Canada	6	44,110,000
12	Switzerland	4	31,050,000
13	USA	14	15,610,560
14	Sweden	3	13,090,000
15	Norway	1	12,800,000
16	Taiwan	5	12,420,000
17	Russia	8	6,625,310
18	England	13	6,529,700
19	Italy	3	3,600,000
20	Peru	1	3,000,000
21	Cambodia	2	2,069,500
22	Germany	7	2,200,000
23	Panama	1	1,750,000
24	Island	2	1,100,000
25	Israel	1	1,020,000
26	Holland	1	1,000,000
27	Myanmar	2	880,000
28	Belgium	1	200,000
29	Sri Lanka	1	200,000
30	Cuba	-	185,000
31	Portugal	1	100,000
32	Turkey	1	100,000
33	Spain	1	28,125

Total: 5,490,268,785
Lao Investment Share (In Joint Ventures) 702,059,293
Total (Combined Foreign and Lao Shares): 6,192,328,078

Foreign Investment Licensed in Lao PDR by Sector, from 2000 through September 2006, in US Dollars. (Source: Department for Promotion and Management of Domestic and Foreign Investment (DDFI, Committee for Planning and Investment.

Rank	Sector	No. of Projects	Capital
Total		779	5,490,268,785
1	Electricity Generation	36	3,293,252,200
2	Agriculture	114	582,884,768
3	Mining	117	500,683,198
4	Industry & Handicraft	161	313,712,020
5	Trading	83	257,713,089

6	Construction	23	159,336,874
7	Service	131	127,251,907
8	Hotel and Restaurant	45	102,263,695
9	Telecom	3	39,940,000
10	Wood industry	32	24,564,290
11	Banking	8	15,000,000
12	Garment	25	14,495,000
13	Consultancies	19	5,074,032

In 2006, the Lao PDR continued to experience rapid growth of FDI. Actual FDI is expected to increase by about 30 percent, from roughly $500 million in 2005 to about $650 million in 2006. The rapid growth has been driven by large investments in industry, especially hydropower and mining ($500 million in hydropower investment projected in 2006 compared to about $400 million in 2005).